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December 7, 2007

FILED

DEC -7 2007

Public Utilities Commission

The Honorable Chairman and Members of the
Hawaii Public Utilities Commission
465 South King Street
Kekuanaoa Building, First Floor
Honolulu, Hawaii 96813

Dear Commissioners:

Subject: Docket No. 2006-0387
MECO 2007 Test Year Rate Case - Statement of Probable Entitlement

Enclosed for filing is Maui Electric Company Limited's ("MECO" or "Company") Statement of Probable Entitlement for its 2007 test year rate case. MECO respectfully requests the Commission to expeditiously render an Interim Decision and Order for this proceeding. As explained in the Stipulated Settlement Letter, filed December 7, 2007, the Parties in this proceeding – MECO and the Division of Consumer Advocacy of the Department of Commerce and Consumer Affairs ("Consumer Advocate") – agree that the amount of the Interim Rate Increase to which MECO is probably entitled under §269-16(d) of the Hawaii Revised Statutes is \$13,222,000 or 3.7% over revenues at present rates. Exhibit 1, Exhibit 2, Exhibit 3 and Exhibit 4 provide the results of operations for revenues at present and proposed rates for MECO consolidated, the Maui Division, the Lanai Division and the Molokai Division, respectively. As indicated in these exhibits, the agreed-upon interim rate increase is based on a return on common equity of 10.7% and a rate of return on rate base of 8.67%.

INTERIM RATE RELIEF AT THIS TIME IS ESSENTIAL

The Stipulated Procedural Schedule, as approved with modifications by the Commission in Order No. 23496, specifies December 14, 2007 as the filing date for the Statement of Probable Entitlement. However, the Company is filing its Statement of Probable Entitlement early. The Parties have also executed a Stipulated Settlement Letter which they are filing today, December 7, 2007. Among other things, the Stipulated Settlement Letter states that the Parties maintain that it is not necessary to have an evidentiary hearing in this docket.

Section 269-16(d) of the Hawaii Revised Statutes ("HRS") states:

...Notwithstanding subsection (c), if the commission has not issued its final decision on a public utility's rate application within the nine-month period stated in this section, the commission, within one month after the expiration of the nine-month period, shall render an interim decision allowing the increase in rates, fares and charges, if any, to which the commission, based on the evidentiary record before it, believes the public utility is probably entitled. The commission may postpone its interim rate decision for thirty days if the commission considers the evidentiary hearings incomplete...

The Company filed its application for this proceeding on February 22, 2007. Therefore, December 22, 2007 would mark the end of the ten-month period.

Interim rate relief based on the attached exhibits at this time is essential. Exhibit 1 shows that the Company's consolidated rate of return on average rate base is 6.75% at present rates compared to the 8.67% to which the Parties have agreed in their Stipulated Settlement Letter.

MECO also is concerned about the deterioration in its credit rating, which may make raising capital more expensive and possibly more difficult. Recently in May 2007, Standard and Poor's downgraded MECO's corporate credit and unsecured debt.

As indicated above, the interim increase that MECO is requesting is based on a calculation of probable entitlement that reflects the settlement reached by the Parties on all issues affecting revenue requirements. HRS 269-16(d) explicitly provides that the interim is subject to refund with interest. As a result, MECO's customers are protected in the event the interim is higher than the final award. The Company is not equally protected if the interim turns out to be lower than the final award. There is no retroactive increase available to the Company under that circumstance.

INTERIM RATE DESIGN

With respect to rate design, MECO proposes to allocate any interim increase in electric revenues in the same equal percentage to all divisions and rate schedules. This is the same interim rate design that Hawaii Electric Light Company, Inc. used for its interim rate increase authorized by Interim Decision and Order No. 23342 in Docket No. 05-0315.

PENSION AND OPEB TRACKING MECHANISMS

The settlement between MECO and the Consumer Advocate includes the establishment of a pension tracking mechanism (as explained in Exhibit 1 and MECO T-9 Attachment 2 of the Stipulated Settlement Letter, filed December 7, 2007) and an OPEB tracking mechanism (as



The Honorable Chairman and Members of the
Hawaii Public Utilities Commission
December 7, 2007
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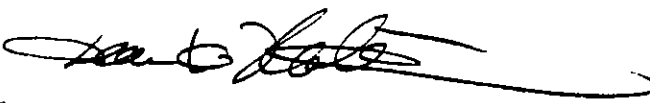
explained in Exhibit 1 of the Stipulated Settlement Letter, filed December 7, 2007 and MECO T-9, Attachment 3 of the Stipulated Settlement Letter, filed December 7, 2007). Therefore, MECO also requests that the Commission approve the adoption of the pension and OPEB tracking mechanisms in its interim decision and order in this proceeding.

For purposes of settlement in this docket, MECO agreed to exclude the amortization of the test year ending pension amount. In addition, the Parties agreed to modify the proposed pension tracking mechanism to reflect a requirement for MECO to fund the minimum required level under the law until the existing pension asset balance is eliminated. Reduced funding would reduce the pension asset. When the existing pension asset amount is reduced to zero, the Company will fund the NPPC as specified in the pension tracking mechanism for MECO. If the existing pension asset amount is not reduced to zero by the next rate case, the Parties would address funding requirements for the pension tracking mechanism in that proceeding. Furthermore, the pension tracking mechanism will require the Company to create a regulatory asset or regulatory liability, as appropriate, for the difference between the amount of NPPC included in rates and actual NPPC recorded by the Company.

CONCLUSION

Based on the above, MECO respectfully requests that the Commission approve an interim rate increase in the amount of \$13,222,000 over revenues at present rates, approve the rate design for the interim rate increase as described above, and approve the adoption of the pension and OPEB tracking mechanisms in its interim decision and order in this proceeding.

Very truly yours,


fa William A. Bonnet
Vice President

Enclosures

cc: Division of Consumer Advocacy
Sawvel & Associates, Inc.
Utilitech, Inc.



Maui Electric Company, Ltd.
Probable Entitlement
Total Company
Results of Operations
2007
(\$ Thousands)

	Present Rates	Additional Amount	Revenue Requirements to Produce 8.67% Return on Average Rate Base
Electric Sales Revenue	355,772	13,003	368,775
Other Operating Revenue	1,535	219	1,754
TOTAL OPERATING REVENUES	357,307	13,222	370,529
Fuel	180,465		180,465
Purchased Power	33,982		33,982
Production	20,847		20,847
Transmission	2,093		2,093
Distribution	5,915		5,915
Customer Accounts	3,017		3,017
Allowance for Uncoll. Accounts	214	8	222
Customer Service	1,316		1,316
Administration & General	13,306		13,306
Operation and Maintenance	261,155	8	261,163
Depreciation & Amortization	28,012		28,012
Amortization of State ITC	(518)		(518)
Taxes Other Than Income	33,008	1,169	34,177
Interest on Customer Deposits	221		221
Income Taxes	9,585	4,687	14,272
TOTAL OPERATING EXPENSES	331,463	5,864	337,327
OPERATING INCOME	25,844	7,358	33,202
AVERAGE RATE BASE	383,123	(154)	382,969
RATE OF RETURN ON AVERAGE RATE BASE	6.75%		8.67%

Maui Electric Company, Ltd.
Probable Entitlement
Total Company
COMPOSITE EMBEDDED COST OF CAPITAL
Estimated 2007 Average

	A	B	C	D
	Capitalization			
	Amount in Thousands	Percent of Total	Earnings Reqmts	Weighted Earnings Reqmts (B) x (C)
Short-Term Debt	4,750	1.27	5.00%	0.063%
Long-Term Debt	150,585	40.15	6.11%	2.451%
Hybrid Securities	9,192	2.45	7.47%	0.183%
Preferred Stock	4,693	1.25	8.34%	0.104%
Common Equity	205,882	54.89	10.70%	5.873%
Total	375,102	100.00		
Estimated Composite Cost of Capital				8.674%
			or	<u>8.67%</u>

Maui Electric Company, Ltd.
Probable Entitlement
Total Company
2007 AVERAGE RATE BASE
(\$ Thousands)

	Beginning Balance	End of Year Balance	Average Balance
Investments in Assets Serving Customers			
Net Cost of Plant in Service	428,495	436,323	432,410
Property Held for Future Use	2,633	2,633	2,633
Fuel Inventory	15,811	15,811	15,811
Materials & Supplies Inventories	10,755	10,755	10,755
Unamort. Net SFAS 109 Reg. Asset	9,040	8,878	8,960
Pension Asset	0	0	0
OPEB Amount	0	0	0
Unamort Sys Dev Costs	0	0	0
Total Investments in Assets	466,734	474,400	470,569
Funds From Non-Investors			
Unamortized CIAC	52,701	61,560	57,131
Customer Advances	4,845	5,746	5,296
Customer Deposits	3,381	3,979	3,681
Accumulated Def. Income Taxes	18,868	15,558	17,213
Unamortized ITC	11,167	12,109	11,638
Total Deductions	90,962	98,952	94,959
Difference			375,610
Working Cash at Present Rates			7,513
Rate Base at Present Rates			383,123
Change in Rate Base - Working Cash			(154)
Rate Base at Proposed Rates			382,969

Maui Electric Company, Ltd.

Total Company
WORKING CASH ITEMS
2007

(\$ Thousands)

THIS PAGE IS NOT APPLICABLE FOR TOTAL COMPANY.

Maui Electric Company, Ltd.
Probable Entitlement
Total Company
COMPUTATION OF INCOME TAX EXPENSE
2007
(\$ Thousands)

	Present Rates	Adjustment	At Proposed Rates
Operating Revenues	357,307	13,222	370,529
Operating Expenses:			
Fuel Oil and Purchased Power	214,447		214,447
Other Operation & Maintenance Expense	46,708	8	46,716
Depreciation	28,012		28,012
Amortization of State ITC	(518)		(518)
Taxes Other than Income	33,008	1,169	34,177
Interest on Customer Deposits	221		221
Total Operating Expenses	321,878	1,177	323,055
Operating Income Before Income Taxes	35,429	12,045	47,474
Tax Adjustments:			
Interest Expense	(9,871)		(9,871)
Meals and Entertainment	31		31
	(9,840)	0	(9,840)
Taxable Income at Ordinary Rates	25,589	12,045	37,634
Income Tax Exp at Ordinary Rates	9,957	4,687	14,644
Tax Benefit of Domestic Production Activities Deduction (DPAD)	371		371
TOTAL INCOME TAX EXPENSE	9,585	4,687	14,273

The DPAD benefit included in the present rates column was calculated based on operating income at proposed rates to facilitate the calculation of revenue requirements. At present rates, the DPAD benefit would be lower than the amount included in the calculation above.

Maui Electric Company, Ltd.
Probable Entitlement
Total Company
COMPUTATION OF TAXES OTHER THAN INCOME TAX
2007
(\$ Thousands)

	Rate	At Present Rates	Adjustment	At Proposed Rates
Electric Sales Revenue		355,772	13,003	368,775
Other Operating Revenue		1,535	219	1,754
Operating Revenues		357,307	13,222	370,529
Public Service Tax	5.885%	21,014	778	21,792
PUC Fees	0.500%	1,785	66	1,851
Franchise Tax	2.500%	8,890	325	9,215
Payroll Tax		1,319		1,319
TOTAL TAXES OTHER THAN INCOME TAX		33,008	1,169	34,177

Maui Electric Company, Ltd.

Total Company
CALCULATIONS OF REVENUE REQUIREMENTS
2007
(\$ Thousands)

THIS PAGE IS NOT APPLICABLE FOR TOTAL COMPANY.

Maui Electric Company, Ltd.
Probable Entitlement
Total Company
SUPPORT WORKSHEET
2007

OPERATING REVENUES:

Electric Sales Revenues	355,772
Other Operating Revenues	1,535

TOTAL OPERATING REVENUES	<u>357,307</u>
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FUEL OIL AND PURCHASE POWER EXPENSES:

Fuel Oil Expense	179,945
Fuel Related Non-labor Exp	508
Fuel Handling Labor Expense	12

Fuel Oil Expense	<u>180,465</u>
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Purchased Power Expense	33,982
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TOTAL FUEL OIL AND PURCHASE POWER EXPENSES	<u>214,447</u>
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OTHER OPERATION & MAINTENANCE EXPENSES:

Production	20,847
Transmission	2,093
Distribution	5,915
Customer Account	3,017
Allowance for Uncollectible Accounts	214
Customer Service	1,316
Administration & General	13,306

TOTAL OTHER OPERATION & MAINTENANCE EXPENSES	<u>46,708</u>
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Maui Electric Company, Ltd.
Probable Entitlement
Total Company
SUPPORT WORKSHEET
2007

TOTAL FUEL OIL & PP AND OTH O&M EXPENSES (LABOR/NONLABOR)	
Fuel Oil Expense	179,945
Purchase Power Expense	33,982
Total Labor Expense	
Labor Expense	17,720
Total Labor Expense	<u>17,720</u>
Total Nonlabor Expense	
Nonlabor Expense	29,000
Fuel Related Expense	508
Payroll Taxes	1,319
Bad Debt Expense	(214)
Pension Expense	(2,889)
Pension Asset Amortization	0
	<u>27,724</u>
TOTAL FUEL OIL & PP, OTH O&M AND PR TAX EXPENSES	<u>259,371</u>
REVENUE TAX	
Public Service Tax	
Electric Sales Revenues	355,772
Other Operating Revenues	1,535
Less: Bad Debt Expense	(213)
Operating Revenues subject to PSC Tax	357,094
Public Service Tax Rate	x 5.885%
Total PSC Tax	<u>21,015</u>
PUC Fees	
Electric Sales Revenues	355,772
Other Operating Revenues	1,535
Less: Bad Debt Expense	(213)
Operating Revenues subject to PSC Tax	357,094
PUC Tax Rate	x 0.500%
Total PUC Tax	<u>1,785</u>

Maui Electric Company, Ltd.
Probable Entitlement
Total Company
SUPPORT WORKSHEET
2007

Franchise Tax		
Electric Sales Revenues		355,772
Less: Bad Debt Expense		(213)
		<hr/>
		355,559
Franchise Tax Rate	x	2.500%
Total Franchise Tax		<hr/>
		8,889
TOTAL REVENUE TAX		<hr/>
		31,689
INTEREST EXPENSE:		
Interest Charged to Operations		10,118
AFUDC Debt		(247)
		<hr/>
TOTAL INTEREST EXPENSE		9,871
INCOME TAX EXPENSE SUMMARY		
Current		11,808
Deferred		(3,311)
State ITC		1,460
Pension Asset Amortization		0
		<hr/>
TOTAL INCOME TAX EXPENSE		9,957
CALCULATIONS OF REVENUE TAX RATE:		
Franchise Tax Rate adjusted for Change in Oth Oper		
Revenues and Bad Debt		0.02456
PSC Tax Rate adjusted for Bad Debt		0.05881
PUC Tax Rate adjusted for Bad Debt		<hr/>
		0.00500
REVENUE TAX RATE		<hr/>
		0.08838
CALCULATIONS OF COMPOSITE INCOME TAX RATE:		
State Tax Rate		0.06015
Federal Tax Rate		0.35000
State Tax Rate		0.06015
Federal Tax Rate	x	<hr/>
		0.35000
Federal Tax Effect on State Tax		<hr/>
		(0.02105)
COMPOSITE INCOME TAX RATE		<hr/>
		0.38910

Maui Electric Company, Ltd.
Probable Entitlement
Total Company
SUPPORT WORKSHEET
2007

CALCULATIONS OF COMPOSITE CAPITAL GAINS TAX RATE:

State Capital Gains Tax Rate	0.03759
Federal Tax Rate	0.35000
State Capital Gains Tax Rate	0.03759
Federal Tax Rate	x 0.35000
Federal Tax Effect on State Capital Gains Tax Rate	(0.01316)
COMPOSITE CAPITAL GAINS TAX RATE	<u>0.37444</u>

CALCULATIONS OF EFFECTIVE INCOME TAX RATE:

PSC Tax & PUC Fees Rates adjusted for Bad Debt	0.06381
Franchise Tax adjusted for Change in Oth Oper Rev and Bad Debt	0.02456
Bad Debt Rate adjusted for Change in Oth Oper Rev	<u>0.00059</u>
Revenue Tax and Bad Debt rate	0.08897
Rev Tax & Bad Debt Reciprocal (1 - 0.08897)	0.91103
Composite Income Tax Rate	x <u>0.38910</u>
EFFECTIVE INCOME TAX RATE AFTER CONSIDERING REVENUE TAX & BAD DEBT	<u>0.35448</u>

CALCULATIONS OF OPERATING INCOME DIVISOR:

PSC Tax & PUC Fees Rates	0.06381
Franchise Tax adjusted for Change in Oth Oper Rev	0.02456
Bad Debt Rate adjusted for Change in Oth Oper Rev	0.00059
Effective Income Tax Rate after considering revenue tax & bad debt	<u>0.35448</u>
	<u>0.44345</u>
OPERATING INCOME DIVISOR (1 - 0.44345)	<u>0.55655</u>

Maui Electric Company, Ltd.
Probable Entitlement
Maui Division
Results of Operations
2007
(\$ Thousands)

	Present Rates	Additional Amount	Revenue Requirements to Produce 8.67% Return on Average Rate Base
Electric Sales Revenue	333,074	9,988	343,062
Other Operating Revenue	1,390	195	1,585
TOTAL OPERATING REVENUES	334,464	10,183	344,647
Fuel	167,036		167,036
Purchased Power	33,982		33,982
Production	18,639		18,639
Transmission	2,061		2,061
Distribution	5,245		5,245
Customer Accounts	2,709		2,709
Allowance for Uncoll. Accounts	200	6	206
Customer Service	1,313		1,313
Administration & General	12,306		12,306
Operation and Maintenance	243,491	6	243,497
Depreciation & Amortization	25,622		25,622
Amortization of State ITC	(475)		(475)
Taxes Other Than Income	30,863	900	31,763
Interest on Customer Deposits	205		205
Income Taxes	9,672	3,610	13,282
TOTAL OPERATING EXPENSES	309,378	4,516	313,894
OPERATING INCOME	25,086	5,667	30,753
AVERAGE RATE BASE	354,840	(119)	354,721
RATE OF RETURN ON AVERAGE RATE BASE	7.07%		8.67%

Maui Electric Company, Ltd.
Probable Entitlement
Maui Division
COMPOSITE EMBEDDED COST OF CAPITAL
Estimated 2007 Average

	A	B	C	D
	Capitalization			
	Amount in Thousands	Percent of Total	Earnings Reqmts	Weighted Earnings Reqmts (B) x (C)
Short-Term Debt	4,750	1.27	5.00%	0.063%
Long-Term Debt	150,585	40.15	6.11%	2.451%
Hybrid Securities	9,192	2.45	7.47%	0.183%
Preferred Stock	4,693	1.25	8.34%	0.104%
Common Equity	205,882	54.89	10.70%	5.873%
Total	375,102	100.00		
Estimated Composite Cost of Capital				8.674%
			or	<u>8.67%</u>

Maui Electric Company, Ltd.
Probable Entitlement
Maui Division
2007 AVERAGE RATE BASE
(\$ Thousands)

	Beginning Balance	End of Year Balance	Average Balance
Investments in Assets Serving Customers			
Net Cost of Plant in Service	393,842	403,832	398,837
Property Held for Future Use	2,633	2,633	2,633
Fuel Inventory	14,629	14,629	14,629
Materials & Supplies Inventories	10,436	10,436	10,436
Unamort. Net SFAS 109 Reg. Asset	8,061	7,956	8,009
Pension Asset	0	0	0
OPEB Amount	0	0	0
Unamort Sys Dev Costs	0	0	0
Total Investments in Assets	429,601	439,486	434,544
Funds From Non-Investors			
Unamortized CIAC	47,659	55,904	51,782
Customer Advances	4,499	5,427	4,963
Customer Deposits	3,136	3,690	3,413
Accumulated Def. Income Taxes	17,309	14,273	15,791
Unamortized ITC	10,244	11,108	10,676
Total Deductions	82,847	90,402	86,625
Difference			347,919
Working Cash at Present Rates			6,921
Rate Base at Present Rates			354,840
Change in Rate Base - Working Cash			(119)
Rate Base at Proposed Rates			354,721

Maui Electric Company, Ltd.
Probable Entitlement
Maui Division
WORKING CASH ITEMS
2007
(\$ Thousands)

	A	B	C	D
	COLLECTION	PAYMENT	NET	
	LAG	LAG	COLLECTION	ANNUAL
	(DAYS)	(DAYS)	LAG	AMOUNT
			(DAYS)	
			(A - B)	
ITEMS REQUIRING WORKING CASH				
Fuel Oil Purchases	36	16	20	166,525
O&M Labor	36	12	24	16,126
Purchased Power	36	41	(5)	33,982
ITEMS THAT PROVIDE WORKING CASH				
O&M Nonlabor	36	37	(1)	25,164
Pension Asset Amortization	36	0	36	-
Revenue Taxes	36	68	(32)	29,665
Income Taxes-Present Rates	36	40	(4)	11,710
Income Taxes-Proposed Rates	36	40	(4)	15,320
	E	F	G	H
	AVERAGE	WORKING	AVERAGE	WORKING
	DAILY	CASH	DAILY	CASH
	AMOUNT	(PRESENT	AMOUNT	(PROPOSED
	(D/365)	RATES)	(PROPOSED)	RATES)
		(C X E)		(C X G)
ITEMS REQUIRING WORKING CASH				
Fuel Oil Purchases	456	9,125	456	9,125
O&M Labor	44	1,060	44	1,060
Purchased Power	93	(466)	93	(466)
ITEMS THAT PROVIDE WORKING CASH				
O&M Nonlabor	69	(69)	69	(69)
Pension Asset Amortization	0	0	0	0
Revenue Taxes	81	(2,601)	84	(2,680)
Income Taxes-Present Rates	32	(128)		
Income Taxes-Proposed Rates	42	-	42	(168)
Total		6,921		6,802
Change in Working Cash				(119)

Maui Electric Company, Ltd.
Probable Entitlement
Maui Division
COMPUTATION OF INCOME TAX EXPENSE
2007
(\$ Thousands)

	Present Rates	Adjustment	At Proposed Rates
Operating Revenues	334,464	10,183	344,647
Operating Expenses:			
Fuel Oil and Purchased Power	201,018		201,018
Other Operation & Maintenance Expense	42,473	6	42,479
Depreciation	25,622		25,622
Amortization of State ITC	(475)		(475)
Taxes Other than Income	30,863	900	31,763
Interest on Customer Deposits	205		205
Total Operating Expenses	299,706	906	300,612
Operating Income Before Income Taxes	34,758	9,277	44,035
Tax Adjustments:			
Interest Expense	(9,056)		(9,056)
Meals and Entertainment	29		29
	(9,027)	0	(9,027)
Taxable Income at Ordinary Rates	25,731	9,277	35,008
Income Tax Exp at Ordinary Rates	10,012	3,610	13,622
Tax Benefit of Domestic Production Activities Deduction (DPAD)	340		340
TOTAL INCOME TAX EXPENSE	9,672	3,610	13,282

The DPAD benefit included in the present rates column was calculated based on operating income at proposed rates to facilitate the calculation of revenue requirements. At present rates, the DPAD benefit would be lower than the amount included in the calculation above.

Maui Electric Company, Ltd.
Probable Entitlement
Maui Division
COMPUTATION OF TAXES OTHER THAN INCOME TAX
2007
(\$ Thousands)

	Rate	At Present Rates	Adjustment	At Proposed Rates
Electric Sales Revenue		333,074	9,988	343,062
Other Operating Revenue		1,390	195	1,585
Operating Revenues		334,464	10,183	344,647
Public Service Tax	5.885%	19,671	599	20,270
PUC Fees	0.500%	1,671	51	1,722
Franchise Tax	2.500%	8,322	250	8,572
Payroll Tax		1,199		1,199
TOTAL TAXES OTHER THAN INCOME TAX		30,863	900	31,763

Maui Electric Company, Ltd.
Probable Entitlement
Maui Division
CALCULATIONS OF REVENUE REQUIREMENTS
2007
(\$ Thousands)

OPERATING INCOME AT PRESENT RATES:

Operating Revenues	334,464
Fuel and Purchased Power Expenses	201,018
Other O&M Expenses	42,473
Depreciation & Amortization Expense	25,622
Amortization of State ITC	(475)
Taxes Other than Income	30,863
Interest on Customer Deposits	205
Income Taxes	9,672
Total Operating Expenses	309,378

OPERATING INCOME AT PRESENT RATES	25,086
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CALCULATIONS OF REVENUE REQUIREMENTS:

OPERATING INCOME

Rate Base at Proposed Rates	354,721
Proposed Rate of Return on Rate Base	x 8.67%
Operating Income	30,754

Less: Operating Income at Present Rates	25,086
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INCREASE IN OPERATING INCOME	5,668
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OPERATING REVENUES:

Increase in Operating Income	5,668
Operating Income Divisor (divided by)	0.55659

INCREASE IN OPERATING REVENUES	10,183
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Increase in Electric Sales Revenue	9,988
Other Operating Revenue Rate	x 1.952%
Increase in Other Operating Revenues	195
	10,183

Maui Electric Company, Ltd.
Probable Entitlement
Maui Division
CALCULATIONS OF REVENUE REQUIREMENTS
2007
(\$ Thousands)

BAD DEBT:

Increase in Electric Revenues		9,988
Bad Debt Rate	x	0.0006
INCREASE IN BAD DEBT EXPENSE		<u>6</u>

REVENUE TAX:

Increase in Operating Revenues		10,183
Less: Increase in Bad Debt Expense		(6)
		<u>10,177</u>
PSC Tax & PUC Fees Rate	x	6.385%
		<u>650</u>
Increase in Electric Revenues		9,988
Less: Increase in Bad Debt Expense		(6)
		<u>9,982</u>
Franchise Tax Rate	x	2.500%
		<u>250</u>
INCREASE IN REVENUE TAX		<u>900</u>

INCOME TAX:

Increase in Operating Revenues		10,183
Effective Income Tax Rate after considering revenue tax & bad debt	x	35.451%
INCREASE IN INCOME TAX		<u>3,610</u>
INCREASE IN OPERATING INCOME (check)		<u>5,667</u>

CHANGE IN RATE BASE:

Maui Electric Company, Ltd.
Probable Entitlement
Maui Division
CALCULATIONS OF REVENUE REQUIREMENTS
2007
(\$ Thousands)

	A	B	C	D
	EXPENSE	AVERAGE	NET	WORKING
	AMOUNT	DAILY	COLLECTION	CASH
		AMOUNT	LAG (DAYS)	REQMT
		(A/365)		(B) x (C)
Increase in Revenue Tax	900	2	(32)	(79)
Income Tax at present rates	11,710	32	(4)	128
Income Tax at proposed rate	15,320	42	(4)	(168)
CHANGE IN RATE BASE - WORKING CASH				(119)
Rate Base at Present Rates				354,840
PROPOSED RATE BASE				354,721
Operating Income at Present Rates				25,086
Increase in Operating Income				5,668
OPERATING INCOME AT PROPOSED RATES				30,754
PROPOSED RATE OF RETURN ON RATE BASE (check)				8.67%

Maui Electric Company, Ltd.
Probable Entitlement
Maui Division
SUPPORT WORKSHEET
2007

OPERATING REVENUES:

Electric Sales Revenues	333,074
Other Operating Revenues	1,390

TOTAL OPERATING REVENUES	<u>334,464</u>
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FUEL OIL AND PURCHASE POWER EXPENSES:

Fuel Oil Expense	166,525
Fuel Related Non-labor Exp	499
Fuel Handling Labor Expense	12

Fuel Oil Expense	<u>167,036</u>
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Purchased Power Expense	33,982
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TOTAL FUEL OIL AND PURCHASE POWER EXPENSES	<u>201,018</u>
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OTHER OPERATION & MAINTENANCE EXPENSES:

Production	18,639
Transmission	2,061
Distribution	5,245
Customer Account	2,709
Allowance for Uncollectible Accounts	200
Customer Service	1,313
Administration & General	12,306

TOTAL OTHER OPERATION & MAINTENANCE EXPENSES	<u>42,473</u>
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Maui Electric Company, Ltd.
Probable Entitlement
Maui Division
SUPPORT WORKSHEET
2007

TOTAL FUEL OIL & PP AND OTH O&M EXPENSES (LABOR/NONLABOR)

Fuel Oil Expense	166,525
Purchase Power Expense	33,982
Total Labor Expense	
Labor Expense	16,126
Total Labor Expense	16,126
Total Nonlabor Expense	
Nonlabor Expense	26,359
Fuel Related Expense	499
Payroll Taxes	1,199
Bad Debt Expense	(200)
Pension Expense	(2,693)
Pension Asset Amortization	0
	25,164

TOTAL FUEL OIL & PP, OTH O&M AND PR TAX EXPENSES

241,797

REVENUE TAX

Public Service Tax	
Electric Sales Revenues	333,074
Other Operating Revenues	1,390
Less: Bad Debt Expense	(200)
Operating Revenues subject to PSC Tax	334,264
Public Service Tax Rate	x 5.885%
Total PSC Tax	19,671

PUC Fees

Electric Sales Revenues	333,074
Other Operating Revenues	1,390
Less: Bad Debt Expense	(200)
Operating Revenues subject to PSC Tax	334,264
PUC Tax Rate	x 0.500%
Total PUC Tax	1,671

Maui Electric Company, Ltd.
Probable Entitlement
Maui Division
SUPPORT WORKSHEET
2007

Franchise Tax		
Electric Sales Revenues		333,074
Less: Bad Debt Expense		(200)
		<u>332,874</u>
Franchise Tax Rate	x	<u>2.500%</u>
Total Franchise Tax		<u>8,322</u>
TOTAL REVENUE TAX		<u>29,665</u>
INTEREST EXPENSE:		
Interest Charged to Operations		9,283
AFUDC Debt		(227)
TOTAL INTEREST EXPENSE		<u>9,056</u>
INCOME TAX EXPENSE SUMMARY		
Current		11,710
Deferred		(3,037)
State ITC		1,339
Pension Asset Amortization		0
TOTAL INCOME TAX EXPENSE		<u>10,012</u>
CALCULATIONS OF REVENUE TAX RATE:		
Franchise Tax Rate adjusted for Change in Oth Oper		
Revenues and Bad Debt		0.02450
PSC Tax Rate adjusted for Bad Debt		0.05881
PUC Tax Rate adjusted for Bad Debt		<u>0.00500</u>
REVENUE TAX RATE		<u>0.08831</u>
CALCULATIONS OF COMPOSITE INCOME TAX RATE:		
State Tax Rate		0.06015
Federal Tax Rate		0.35000
State Tax Rate		0.06015
Federal Tax Rate	x	<u>0.35000</u>
Federal Tax Effect on State Tax		<u>(0.02105)</u>
COMPOSITE INCOME TAX RATE		<u>0.38910</u>

Maui Electric Company, Ltd.
Probable Entitlement
Maui Division
SUPPORT WORKSHEET
2007

CALCULATIONS OF COMPOSITE CAPITAL GAINS TAX RATE:

State Capital Gains Tax Rate	0.03759
Federal Tax Rate	0.35000
State Capital Gains Tax Rate	0.03759
Federal Tax Rate	x 0.35000
Federal Tax Effect on State Capital Gains Tax Rate	(0.01316)
COMPOSITE CAPITAL GAINS TAX RATE	<u>0.37444</u>

CALCULATIONS OF EFFECTIVE INCOME TAX RATE:

PSC Tax & PUC Fees Rates adjusted for Bad Debt	0.06381
Franchise Tax adjusted for Change in Oth Oper Rev and Bad Debt	0.02450
Bad Debt Rate adjusted for Change in Oth Oper Rev	<u>0.00059</u>
Revenue Tax and Bad Debt rate	0.08890
Rev Tax & Bad Debt Reciprocal (1 - 0.08890)	0.91110
Composite Income Tax Rate	x <u>0.38910</u>
EFFECTIVE INCOME TAX RATE AFTER CONSIDERING REVENUE TAX & BAD DEBT	<u>0.35451</u>

CALCULATIONS OF OPERATING INCOME DIVISOR:

PSC Tax & PUC Fees Rates	0.06381
Franchise Tax adjusted for Change in Oth Oper Rev	0.02450
Bad Debt Rate adjusted for Change in Oth Oper Rev	0.00059
Effective Income Tax Rate after considering revenue tax & bad debt	<u>0.35451</u>
	<u>0.44341</u>
OPERATING INCOME DIVISOR (1 - 0.44341)	<u>0.55659</u>

Maui Electric Company, Ltd.
Probable Entitlement
Lanai Division
Results of Operations
2007
(\$ Thousands)

	Present Rates	Additional Amount	Revenue Requirements to Produce 8.67% Return on Average Rate Base
Electric Sales Revenue	10,067	1,854	11,921
Other Operating Revenue	38	9	47
TOTAL OPERATING REVENUES	10,105	1,863	11,968
Fuel	6,176		6,176
Purchased Power	0		0
Production	1,045		1,045
Transmission	0		0
Distribution	246		246
Customer Accounts	139		139
Allowance for Uncoll. Accounts	6	1	7
Customer Service	1		1
Administration & General	339		339
Operation and Maintenance	7,952	1	7,953
Depreciation & Amortization	1,267		1,267
Amortization of State ITC	(20)		(20)
Taxes Other Than Income	949	165	1,114
Interest on Customer Deposits	5		5
Income Taxes	(179)	660	481
TOTAL OPERATING EXPENSES	9,974	826	10,800
OPERATING INCOME	131	1,037	1,168
AVERAGE RATE BASE	13,492	(21)	13,471
RATE OF RETURN ON AVERAGE RATE BASE	0.97%		8.67%

Maui Electric Company, Ltd.
Probable Entitlement
Lanai Division
COMPOSITE EMBEDDED COST OF CAPITAL
Estimated 2007 Average

	A	B	C	D
	Capitalization			
	Amount in Thousands	Percent of Total	Earnings Reqmts	Weighted Earnings Reqmts (B) x (C)
Short-Term Debt	4,750	1.27	5.00%	0.063%
Long-Term Debt	150,585	40.15	6.11%	2.451%
Hybrid Securities	9,192	2.45	7.47%	0.183%
Preferred Stock	4,693	1.25	8.34%	0.104%
Common Equity	205,882	54.89	10.70%	5.873%
Total	375,102	100.00		
Estimated Composite Cost of Capital				8.674%
			or	<u>8.67%</u>

Maui Electric Company, Ltd.
Probable Entitlement
Lanai Division
2007 AVERAGE RATE BASE
(\$ Thousands)

	Beginning Balance	End of Year Balance	Average Balance
Investments in Assets Serving Customers			
Net Cost of Plant in Service	15,950	14,949	15,450
Property Held for Future Use	0	0	0
Fuel Inventory	550	550	550
Materials & Supplies Inventories	141	141	141
Unamort. Net SFAS 109 Reg. Asset	449	423	436
Pension Asset	0	0	0
OPEB Amount	0	0	0
Unamort Sys Dev Costs	0	0	0
Total Investments in Assets	17,090	16,063	16,577
Funds From Non-Investors			
Unamortized CIAC	2,004	2,008	2,006
Customer Advances	186	227	207
Customer Deposits	83	98	91
Accumulated Def. Income Taxes	719	593	656
Unamortized ITC	426	462	444
Total Deductions	3,418	3,388	3,404
Difference			13,173
Working Cash at Present Rates			319
Rate Base at Present Rates			13,492
Change in Rate Base - Working Cash			(21)
Rate Base at Proposed Rates			13,471

Maui Electric Company, Ltd.
Probable Entitlement
Lanai Division
WORKING CASH ITEMS
2007
(\$ Thousands)

	A	B	C	D
	COLLECTION	PAYMENT	NET	
	LAG	LAG	COLLECTION	ANNUAL
	(DAYS)	(DAYS)	LAG	AMOUNT
			(DAYS)	
			(A - B)	
ITEMS REQUIRING WORKING CASH				
Fuel Oil Purchases	36	15	21	6,173
O&M Labor	36	12	24	681
Purchased Power	36	0	36	-
ITEMS THAT PROVIDE WORKING CASH				
O&M Nonlabor	36	37	(1)	1,071
Pension Asset Amortization	36	0	36	-
Revenue Taxes	36	68	(32)	896
Income Taxes-Present Rates	36	40	(4)	(95)
Income Taxes-Proposed Rates	36	40	(4)	565
	E	F	G	H
	AVERAGE	WORKING	AVERAGE	WORKING
	DAILY	CASH	DAILY	CASH
	AMOUNT	(PRESENT	AMOUNT	(PROPOSED
	(D/365)	RATES)	(PROPOSED)	RATES)
		(C X E)		(C X G)
ITEMS REQUIRING WORKING CASH				
Fuel Oil Purchases	17	355	17	355
O&M Labor	2	45	2	45
Purchased Power	0	0	0	0
ITEMS THAT PROVIDE WORKING CASH				
O&M Nonlabor	3	(3)	3	(3)
Pension Asset Amortization	0	0	0	0
Revenue Taxes	2	(79)	3	(93)
Income Taxes-Present Rates	(0)	1		
Income Taxes-Proposed Rates	2	-	2	(6)
Total		319		298
Change in Working Cash				(21)

Maui Electric Company, Ltd.
Probable Entitlement
Lanai Division
COMPUTATION OF INCOME TAX EXPENSE
2007
(\$ Thousands)

	Present Rates	Adjustment	At Proposed Rates
Operating Revenues	10,105	1,863	11,968
Operating Expenses:			
Fuel Oil and Purchased Power	6,176		6,176
Other Operation & Maintenance Expense	1,776	1	1,777
Depreciation	1,267		1,267
Amortization of State ITC	(20)		(20)
Taxes Other than Income	949	165	1,114
Interest on Customer Deposits	5		5
Total Operating Expenses	10,153	166	10,319
Operating Income Before Income Taxes	(48)	1,697	1,649
Tax Adjustments:			
Interest Expense	(376)		(376)
Meals and Entertainment	1		1
	(375)	0	(375)
Taxable Income at Ordinary Rates	(423)	1,697	1,274
Income Tax Exp at Ordinary Rates	(165)	660	495
INCOME TAX EXPENSE	(165)	660	495
Tax Benefit of Domestic Production Activities Deduction (DPAD)	14		14
TOTAL INCOME TAX EXPENSE	(179)	660	481

The DPAD benefit included in the present rates column was calculated based on operating income at proposed rates to facilitate the calculation of revenue requirements. At present rates, the DPAD benefit would be lower than the amount included in the calculation above.

Maui Electric Company, Ltd.
Probable Entitlement
Lanai Division
COMPUTATION OF TAXES OTHER THAN INCOME TAX
2007
(\$ Thousands)

	Rate	At Present Rates	Adjustment	At Proposed Rates
Electric Sales Revenue		10,067	1,854	11,921
Other Operating Revenue		38	9	47
Operating Revenues		10,105	1,863	11,968
Public Service Tax	5.885%	594	110	704
PUC Fees	0.500%	50	9	59
Franchise Tax	2.500%	252	46	298
Payroll Tax		53		53
TOTAL TAXES OTHER THAN INCOME TAX		949	165	1,114

Maui Electric Company, Ltd.
Probable Entitlement
Lanai Division
CALCULATIONS OF REVENUE REQUIREMENTS
2007
(\$ Thousands)

OPERATING INCOME AT PRESENT RATES:

Operating Revenues	10,105
Fuel and Purchased Power Expenses	6,176
Other O&M Expenses	1,776
Depreciation & Amortization Expense	1,267
Amortization of State ITC	(20)
Taxes Other than Income	949
Interest on Customer Deposits	5
Income Taxes	(179)
Total Operating Expenses	9,974

OPERATING INCOME AT PRESENT RATES	132
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CALCULATIONS OF REVENUE REQUIREMENTS:

OPERATING INCOME

Rate Base at Proposed Rates	13,471
Proposed Rate of Return on Rate Base	x 8.67%
Operating Income	1,168

Less: Operating Income at Present Rates	132
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INCREASE IN OPERATING INCOME	1,037
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OPERATING REVENUES:

Increase in Operating Income	1,037
Operating Income Divisor (divided by)	0.55637

INCREASE IN OPERATING REVENUES	1,863
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Increase in Electric Sales Revenue	1,854
Other Operating Revenue Rate	x 0.485%
Increase in Other Operating Revenues	9
	1,863

Maui Electric Company, Ltd.
Probable Entitlement
Lanai Division
CALCULATIONS OF REVENUE REQUIREMENTS
2007
(\$ Thousands)

BAD DEBT:

Increase in Electric Revenues		1,854
Bad Debt Rate	x	0.0006
INCREASE IN BAD DEBT EXPENSE		<u>1</u>

REVENUE TAX:

Increase in Operating Revenues		1,863
Less: Increase in Bad Debt Expense		(1)
		<u>1,862</u>
PSC Tax & PUC Fees Rate	x	6.385%
		<u>119</u>
Increase in Electric Revenues		1,854
Less: Increase in Bad Debt Expense		(1)
		<u>1,853</u>
Franchise Tax Rate	x	2.500%
		<u>46</u>
INCREASE IN REVENUE TAX		<u>165</u>

INCOME TAX:

Increase in Operating Revenues		1,863
Effective Income Tax Rate after considering revenue tax & bad debt	x	35.436%
INCREASE IN INCOME TAX		<u>660</u>
INCREASE IN OPERATING INCOME (check)		<u>1,037</u>

CHANGE IN RATE BASE:

Maui Electric Company, Ltd.
Probable Entitlement
Lanai Division
CALCULATIONS OF REVENUE REQUIREMENTS
2007
(\$ Thousands)

	A	B	C	D
	EXPENSE	AVERAGE	NET	WORKING
	AMOUNT	DAILY	COLLECTION	CASH
		AMOUNT	LAG (DAYS)	REQMT
		(A/365)		(B) x (C)
Increase in Revenue Tax	165	0	(32)	(14)
Income Tax at present rates	(95)	(0)	(4)	(1)
Income Tax at proposed rate	565	2	(4)	(6)
CHANGE IN RATE BASE - WORKING CASH				(21)
Rate Base at Present Rates				13,492
PROPOSED RATE BASE				13,471
Operating Income at Present Rates				132
Increase in Operating Income				1,037
OPERATING INCOME AT PROPOSED RATES				1,168
PROPOSED RATE OF RETURN ON RATE BASE (check)				8.67%

Maui Electric Company, Ltd.
Probable Entitlement
Lanai Division
SUPPORT WORKSHEET
2007

OPERATING REVENUES:

Electric Sales Revenues	10,067
Other Operating Revenues	38

TOTAL OPERATING REVENUES	<u>10,105</u>
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FUEL OIL AND PURCHASE POWER EXPENSES:

Fuel Oil Expense	6,173
Fuel Related Non-labor Exp	3
Fuel Handling Labor Expense	0

Fuel Oil Expense	<u>6,176</u>
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Purchased Power Expense	0
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TOTAL FUEL OIL AND PURCHASE POWER EXPENSES	<u>6,176</u>
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OTHER OPERATION & MAINTENANCE EXPENSES:

Production	1,045
Transmission	0
Distribution	246
Customer Account	139
Allowance for Uncollectible Accounts	6
Customer Service	1
Administration & General	339

TOTAL OTHER OPERATION & MAINTENANCE EXPENSES	<u>1,776</u>
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Maui Electric Company, Ltd.
Probable Entitlement
Lanai Division
SUPPORT WORKSHEET
2007

TOTAL FUEL OIL & PP AND OTH O&M EXPENSES (LABOR/NONLABOR)	
Fuel Oil Expense	6,173
Purchase Power Expense	0
Total Labor Expense	
Labor Expense	681
Total Labor Expense	<u>681</u>
Total Nonlabor Expense	
Nonlabor Expense	1,095
Fuel Related Expense	3
Payroll Taxes	53
Bad Debt Expense	(6)
Pension Expense	(74)
Pension Asset Amortization	0
	<u>1,071</u>
TOTAL FUEL OIL & PP, OTH O&M AND PR TAX EXPENSES	<u>7,925</u>
REVENUE TAX	
Public Service Tax	
Electric Sales Revenues	10,067
Other Operating Revenues	38
Less: Bad Debt Expense	(6)
Operating Revenues subject to PSC Tax	10,099
Public Service Tax Rate	x 5.885%
Total PSC Tax	<u>594</u>
PUC Fees	
Electric Sales Revenues	10,067
Other Operating Revenues	38
Less: Bad Debt Expense	(6)
Operating Revenues subject to PSC Tax	10,099
PUC Tax Rate	x 0.500%
Total PUC Tax	<u>50</u>

Maui Electric Company, Ltd.
Probable Entitlement
Lanai Division
SUPPORT WORKSHEET
2007

Franchise Tax	
Electric Sales Revenues	10,067
Less: Bad Debt Expense	(6)
	<u>10,061</u>
Franchise Tax Rate	x 2.500%
Total Franchise Tax	<u>252</u>
TOTAL REVENUE TAX	<u>896</u>
INTEREST EXPENSE:	
Interest Charged to Operations	385
AFUDC Debt	(9)
TOTAL INTEREST EXPENSE	<u>376</u>
INCOME TAX EXPENSE SUMMARY	
Current	(95)
Deferred	(126)
State ITC	56
Pension Asset Amortization	0
TOTAL INCOME TAX EXPENSE	<u>(165)</u>
CALCULATIONS OF REVENUE TAX RATE:	
Franchise Tax Rate adjusted for Change in Oth Oper	
Revenues and Bad Debt	0.02486
PSC Tax Rate adjusted for Bad Debt	0.05881
PUC Tax Rate adjusted for Bad Debt	0.00500
REVENUE TAX RATE	<u>0.08868</u>
CALCULATIONS OF COMPOSITE INCOME TAX RATE:	
State Tax Rate	0.06015
Federal Tax Rate	0.35000
State Tax Rate	0.06015
Federal Tax Rate	x 0.35000
Federal Tax Effect on State Tax	<u>(0.02105)</u>
COMPOSITE INCOME TAX RATE	<u>0.38910</u>

Maui Electric Company, Ltd.
Probable Entitlement
Lanai Division
SUPPORT WORKSHEET
2007

CALCULATIONS OF COMPOSITE CAPITAL GAINS TAX RATE:

State Capital Gains Tax Rate		0.03759
Federal Tax Rate		0.35000
State Capital Gains Tax Rate		0.03759
Federal Tax Rate	x	0.35000
Federal Tax Effect on State Capital Gains Tax Rate		(0.01316)
COMPOSITE CAPITAL GAINS TAX RATE		0.37444

CALCULATIONS OF EFFECTIVE INCOME TAX RATE:

PSC Tax & PUC Fees Rates adjusted for Bad Debt		0.06381
Franchise Tax adjusted for Change in Oth Oper Rev and Bad Debt		0.02486
Bad Debt Rate adjusted for Change in Oth Oper Rev		0.00060
Revenue Tax and Bad Debt rate		0.08927
Rev Tax & Bad Debt Reciprocal (1 - 0.08927)		0.91073
Composite Income Tax Rate	x	0.38910
EFFECTIVE INCOME TAX RATE AFTER CONSIDERING REVENUE TAX & BAD DEBT		0.35436

CALCULATIONS OF OPERATING INCOME DIVISOR:

PSC Tax & PUC Fees Rates		0.06381
Franchise Tax adjusted for Change in Oth Oper Rev		0.02486
Bad Debt Rate adjusted for Change in Oth Oper Rev		0.00060
Effective Income Tax Rate after considering revenue tax & bad debt		0.35436
		0.44363
OPERATING INCOME DIVISOR (1 - 0.44363)		0.55637

Maui Electric Company, Ltd.
Probable Entitlement
Molokai Division
Results of Operations
2007
(\$ Thousands)

	Present Rates	Additional Amount	Revenue Requirements to Produce 8.67% Return on Average Rate Base
Electric Sales Revenue	12,631	1,161	13,792
Other Operating Revenue	107	15	122
TOTAL OPERATING REVENUES	12,738	1,176	13,914
Fuel	7,253		7,253
Purchased Power	0		0
Production	1,164		1,164
Transmission	32		32
Distribution	424		424
Customer Accounts	169		169
Allowance for Uncoll. Accounts	8	1	9
Customer Service	2		2
Administration & General	661		661
Operation and Maintenance	9,713	1	9,714
Depreciation & Amortization	1,123		1,123
Amortization of State ITC	(23)		(23)
Taxes Other Than Income	1,196	104	1,300
Interest on Customer Deposits	11		11
Income Taxes	92	417	509
TOTAL OPERATING EXPENSES	12,112	522	12,634
OPERATING INCOME	626	654	1,280
AVERAGE RATE BASE	14,791	(14)	14,777
RATE OF RETURN ON AVERAGE RATE BASE	4.23%		8.67%

Maui Electric Company, Ltd.
Probable Entitlement
Molokai Division
COMPOSITE EMBEDDED COST OF CAPITAL
Estimated 2007 Average

	A	B	C	D
	Capitalization			
	Amount in Thousands	Percent of Total	Earnings Reqmts	Weighted Earnings Reqmts (B) x (C)
Short-Term Debt	4,750	1.27	5.00%	0.063%
Long-Term Debt	150,585	40.15	6.11%	2.451%
Hybrid Securities	9,192	2.45	7.47%	0.183%
Preferred Stock	4,693	1.25	8.34%	0.104%
Common Equity	205,882	54.89	10.70%	5.873%
Total	375,102	100.00		
Estimated Composite Cost of Capital				8.674%
			or	<u>8.67%</u>

Maui Electric Company, Ltd.
Probable Entitlement
Molokai Division
2007 AVERAGE RATE BASE
(\$ Thousands)

	Beginning Balance	End of Year Balance	Average Balance
Investments in Assets Serving Customers			
Net Cost of Plant in Service	18,703	17,542	18,123
Property Held for Future Use	0	0	0
Fuel Inventory	632	632	632
Materials & Supplies Inventories	178	178	178
Unamort. Net SFAS 109 Reg. Asset	530	499	515
Pension Asset	0	0	0
OPEB Amount	0	0	0
Unamort Sys Dev Costs	0	0	0
Total Investments in Assets	20,043	18,851	19,448
Funds From Non-Investors			
Unamortized CIAC	3,038	3,648	3,343
Customer Advances	160	92	126
Customer Deposits	162	191	177
Accumulated Def. Income Taxes	840	692	766
Unamortized ITC	497	539	518
Total Deductions	4,697	5,162	4,930
Difference			14,518
Working Cash at Present Rates			273
Rate Base at Present Rates			14,791
Change in Rate Base - Working Cash			(14)
Rate Base at Proposed Rates			14,777

Maui Electric Company, Ltd.
Probable Entitlement
Molokai Division
WORKING CASH ITEMS
2007
(\$ Thousands)

	A	B	C	D
	COLLECTION	PAYMENT	NET	
	LAG	LAG	COLLECTION	ANNUAL
	(DAYS)	(DAYS)	LAG	AMOUNT
			(DAYS)	
			(A - B)	
ITEMS REQUIRING WORKING CASH				
Fuel Oil Purchases	36	20	16	7,247
O&M Labor	36	12	24	913
Purchased Power	36	0	36	-
ITEMS THAT PROVIDE WORKING CASH				
O&M Nonlabor	36	37	(1)	1,490
Pension Asset Amortization	36	0	36	-
Revenue Taxes	36	68	(32)	1,128
Income Taxes-Present Rates	36	40	(4)	192
Income Taxes-Proposed Rates	36	40	(4)	609
	E	F	G	H
	AVERAGE	WORKING	AVERAGE	WORKING
	DAILY	CASH	DAILY	CASH
	AMOUNT	(PRESENT	AMOUNT	(PROPOSED
	(D/365)	RATES)	(PROPOSED)	RATES)
		(C X E)		(C X G)
ITEMS REQUIRING WORKING CASH				
Fuel Oil Purchases	20	318	20	318
O&M Labor	3	60	3	60
Purchased Power	0	0	0	0
ITEMS THAT PROVIDE WORKING CASH				
O&M Nonlabor	4	(4)	4	(4)
Pension Asset Amortization	0	0	0	0
Revenue Taxes	3	(99)	3	(108)
Income Taxes-Present Rates	1	(2)		
Income Taxes-Proposed Rates	2	-	2	(7)
Total		273		259
Change in Working Cash				(14)

Maui Electric Company, Ltd.
Probable Entitlement
Molokai Division
COMPUTATION OF INCOME TAX EXPENSE
2007
(\$ Thousands)

	Present Rates	Adjustment	At Proposed Rates
Operating Revenues	12,738	1,176	13,914
Operating Expenses:			
Fuel Oil and Purchased Power	7,253		7,253
Other Operation & Maintenance Expense	2,460	1	2,461
Depreciation	1,123		1,123
Amortization of State ITC	(23)		(23)
Taxes Other than Income	1,196	104	1,300
Interest on Customer Deposits	11		11
Total Operating Expenses	12,020	105	12,125
Operating Income Before Income Taxes	718	1,071	1,789
Tax Adjustments:			
Interest Expense	(439)		(439)
Meals and Entertainment	1		1
	(438)	0	(438)
Taxable Income at Ordinary Rates	280	1,071	1,351
Income Tax Exp at Ordinary Rates	109	417	526
Tax Benefit of Domestic Production Activities Deduction (DPAD)	17		17
TOTAL INCOME TAX EXPENSE	92	417	509

The DPAD benefit included in the present rates column was calculated based on operating income at proposed rates to facilitate the calculation of revenue requirements. At present rates, the DPAD benefit would be lower than the amount included in the calculation above.

Maui Electric Company, Ltd.

Molokai Division
COMPUTATION OF TAXES OTHER THAN INCOME TAX
2007
(\$ Thousands)

	Rate	At Present Rates	Adjustment	At Proposed Rates
Electric Sales Revenue		12,631	1,161	13,792
Other Operating Revenue		107	15	122
Operating Revenues		12,738	1,176	13,914
Public Service Tax	5.885%	749	69	818
PUC Fees	0.500%	64	6	70
Franchise Tax	2.500%	316	29	345
Payroll Tax		67		67
TOTAL TAXES OTHER THAN INCOME TAX		1,196	104	1,300

Maui Electric Company, Ltd.
Probable Entitlement
Molokai Division
CALCULATIONS OF REVENUE REQUIREMENTS
2007
(\$ Thousands)

OPERATING INCOME AT PRESENT RATES:

Operating Revenues	12,738
Fuel and Purchased Power Expenses	7,253
Other O&M Expenses	2,460
Depreciation & Amortization Expense	1,123
Amortization of State ITC	(23)
Taxes Other than Income	1,196
Interest on Customer Deposits	11
Income Taxes	92
Total Operating Expenses	12,112
OPERATING INCOME AT PRESENT RATES	627

CALCULATIONS OF REVENUE REQUIREMENTS:

OPERATING INCOME

Rate Base at Proposed Rates	14,777
Proposed Rate of Return on Rate Base	x 8.67%
Operating Income	1,281
Less: Operating Income at Present Rates	627
INCREASE IN OPERATING INCOME	655

OPERATING REVENUES:

Increase in Operating Income	655
Operating Income Divisor (divided by)	0.55649
INCREASE IN OPERATING REVENUES	1,176
Increase in Electric Sales Revenue	1,161
Other Operating Revenue Rate	x 1.292%
Increase in Other Operating Revenues	15
	1,176

Maui Electric Company, Ltd.
Probable Entitlement
Molokai Division
CALCULATIONS OF REVENUE REQUIREMENTS
2007
(\$ Thousands)

BAD DEBT:

Increase in Electric Revenues		1,161
Bad Debt Rate	x	0.0006
		<hr/>
INCREASE IN BAD DEBT EXPENSE		1
		<hr/>

REVENUE TAX:

Increase in Operating Revenues		1,176
Less: Increase in Bad Debt Expense		(1)
		<hr/>
		1,175
PSC Tax & PUC Fees Rate	x	6.385%
		<hr/>
		75
		<hr/>
Increase in Electric Revenues		1,161
Less: Increase in Bad Debt Expense		(1)
		<hr/>
		1,160
Franchise Tax Rate	x	2.500%
		<hr/>
		29
		<hr/>
INCREASE IN REVENUE TAX		104
		<hr/>

INCOME TAX:

Increase in Operating Revenues		1,176
Effective Income Tax Rate after considering revenue tax & bad debt	x	35.444%
		<hr/>
INCREASE IN INCOME TAX		417
		<hr/>
INCREASE IN OPERATING INCOME (check)		654
		<hr/>

CHANGE IN RATE BASE:

Maui Electric Company, Ltd.
Probable Entitlement
Molokai Division
CALCULATIONS OF REVENUE REQUIREMENTS
2007
(\$ Thousands)

	A	B	C	D
	EXPENSE	AVERAGE	NET	WORKING
	AMOUNT	DAILY	COLLECTION	CASH
		AMOUNT	LAG (DAYS)	REQMT
		(A/365)		(B) x (C)
Increase in Revenue Tax	104	0	(32)	(9)
Income Tax at present rates	192	1	(4)	2
Income Tax at proposed rate	609	2	(4)	(7)
CHANGE IN RATE BASE - WORKING CASH				(14)
Rate Base at Present Rates				14,791
PROPOSED RATE BASE				14,777
Operating Income at Present Rates				627
Increase in Operating Income				655
OPERATING INCOME AT PROPOSED RATES				1,281
PROPOSED RATE OF RETURN ON RATE BASE (check)				8.67%

Maui Electric Company, Ltd.
Probable Entitlement
Molokai Division
SUPPORT WORKSHEET
2007

OPERATING REVENUES:

Electric Sales Revenues	12,631
Other Operating Revenues	107

TOTAL OPERATING REVENUES	<u>12,738</u>
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FUEL OIL AND PURCHASE POWER EXPENSES:

Fuel Oil Expense	7,247
Fuel Related Non-labor Exp	6
Fuel Handling Labor Expense	0

Fuel Oil Expense	<u>7,253</u>
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Purchased Power Expense	0
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TOTAL FUEL OIL AND PURCHASE POWER EXPENSES	<u>7,253</u>
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OTHER OPERATION & MAINTENANCE EXPENSES:

Production	1,164
Transmission	32
Distribution	424
Customer Account	169
Allowance for Uncollectible Accounts	8
Customer Service	2
Administration & General	661

TOTAL OTHER OPERATION & MAINTENANCE EXPENSES	<u>2,460</u>
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Maui Electric Company, Ltd.
Probable Entitlement
Molokai Division
SUPPORT WORKSHEET
2007

TOTAL FUEL OIL & PP AND OTH O&M EXPENSES (LABOR/NONLABOR)	
Fuel Oil Expense	7,247
Purchase Power Expense	0
Total Labor Expense	
Labor Expense	913
Total Labor Expense	<u>913</u>
Total Nonlabor Expense	
Nonlabor Expense	1,547
Fuel Related Expense	6
Payroll Taxes	67
Bad Debt Expense	(8)
Pension Expense	(122)
Pension Asset Amortization	0
	<u>1,490</u>
TOTAL FUEL OIL & PP, OTH O&M AND PR TAX EXPENSES	<u>9,650</u>
REVENUE TAX	
Public Service Tax	
Electric Sales Revenues	12,631
Other Operating Revenues	107
Less: Bad Debt Expense	(8)
Operating Revenues subject to PSC Tax	<u>12,730</u>
Public Service Tax Rate	x <u>5.885%</u>
Total PSC Tax	<u>749</u>
PUC Fees	
Electric Sales Revenues	12,631
Other Operating Revenues	107
Less: Bad Debt Expense	(8)
Operating Revenues subject to PSC Tax	<u>12,730</u>
PUC Tax Rate	x <u>0.500%</u>
Total PUC Tax	<u>64</u>

Maui Electric Company, Ltd.
Probable Entitlement
Molokai Division
SUPPORT WORKSHEET
2007

Franchise Tax		
Electric Sales Revenues		12,631
Less: Bad Debt Expense		(8)
		<u>12,623</u>
Franchise Tax Rate	x	<u>2.500%</u>
Total Franchise Tax		<u>316</u>
TOTAL REVENUE TAX		<u>1,128</u>
INTEREST EXPENSE:		
Interest Charged to Operations		450
AFUDC Debt		(11)
TOTAL INTEREST EXPENSE		<u>439</u>
INCOME TAX EXPENSE SUMMARY		
Current		192
Deferred		(148)
State ITC		65
Pension Asset Amortization		0
TOTAL INCOME TAX EXPENSE		<u>109</u>
CALCULATIONS OF REVENUE TAX RATE:		
Franchise Tax Rate adjusted for Change in Oth Oper		
Revenues and Bad Debt		0.02466
PSC Tax Rate adjusted for Bad Debt		0.05881
PUC Tax Rate adjusted for Bad Debt		<u>0.00500</u>
REVENUE TAX RATE		<u>0.08847</u>
CALCULATIONS OF COMPOSITE INCOME TAX RATE:		
State Tax Rate		0.06015
Federal Tax Rate		0.35000
State Tax Rate		0.06015
Federal Tax Rate	x	<u>0.35000</u>
Federal Tax Effect on State Tax		<u>(0.02105)</u>
COMPOSITE INCOME TAX RATE		<u>0.38910</u>

Maui Electric Company, Ltd.
Probable Entitlement
Molokai Division
SUPPORT WORKSHEET
2007

CALCULATIONS OF COMPOSITE CAPITAL GAINS TAX RATE:

State Capital Gains Tax Rate		0.03759
Federal Tax Rate		0.35000
State Capital Gains Tax Rate		0.03759
Federal Tax Rate	x	0.35000
Federal Tax Effect on State Capital Gains Tax Rate		(0.01316)
COMPOSITE CAPITAL GAINS TAX RATE		0.37444

CALCULATIONS OF EFFECTIVE INCOME TAX RATE:

PSC Tax & PUC Fees Rates adjusted for Bad Debt		0.06381
Franchise Tax adjusted for Change in Oth Oper Rev and Bad Debt		0.02466
Bad Debt Rate adjusted for Change in Oth Oper Rev		0.00059
Revenue Tax and Bad Debt rate		0.08907
Rev Tax & Bad Debt Reciprocal (1 - 0.08907)		0.91093
Composite Income Tax Rate	x	0.38910
EFFECTIVE INCOME TAX RATE AFTER CONSIDERING REVENUE TAX & BAD DEBT		0.35444

CALCULATIONS OF OPERATING INCOME DIVISOR:

PSC Tax & PUC Fees Rates		0.06381
Franchise Tax adjusted for Change in Oth Oper Rev		0.02466
Bad Debt Rate adjusted for Change in Oth Oper Rev		0.00059
Effective Income Tax Rate after considering revenue tax & bad debt		0.35444
		0.44351
OPERATING INCOME DIVISOR (1 - 0.44351)		0.55649